# GOVERNMENT OF INDIA
# URBAN DEVELOPMENT
# LOK SABHA

STARRED QUESTION NO:277
ANSWERED ON:14.03.2000
PRIVATISATION OF DRINKING WATER SYSTEM
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**Will the Minister of URBAN DEVELOPMENT be pleased to state:**

(a) whether the Government propose to privatise the Water Supply and Sanitation Services in the country;

(b) if so, the details thereof;

(c) whether a seminar on the subject was organised recently;

(d) if so, the details of agenda discussed and decisions arrived at in the Seminar;

(e) the precautionary measures taken by the Government to ensure these services are made available to the people on reasonable rates;

(f) the total investments made by the Government in this sector;
(g) whether the World Bank has offered assistance to improve quality and supply of drinking water arrangements; and
(h) if so, the details thereof?

## Answer

MINISTER FOR URBAN DEVELOPMENT ( SHRI JAGMOHAN )

(a)to(h): A Statement is laid on the Table of the Sabha.

STATEMENT

STATEMENT REFERRED TO IN REPLY TLOOK SABHA STARRED QUESTION NO. 277 FOR 14.3.2000 REGARDI PRIVATISATION OF DRINKING WATER SYSTEM.

(a)&(b): Constitution has extended the responsibility of providing water supply and sanitation in urban areas to State Governments under Article 246(3) in VII Schedule (list II) entry nos. 5 & 6.It is for the State Governments to take a dicision regarding privatisation of these services. The Ministry of Urban Development is rendering all possible assistance to the State Governments to initiate the process of private sector participation through policy formulation and exposure to international experience in this area.

(c)to(e): The Ministry organised a Seminar on Private Sector Participation in Water Supply & Sanitation in collaboration with the World Bank at New Delhi on 7-8 February, 2000 with the following objectives:

i) to acquaint senior Indian decision-makers with the options of private sector participation (PSP), risks and opportunities, lessons learnt from world-wide experiences in developing countries during the last decade;

ii) to share experiences on different forms of regulation, with particular emphasis on tariff regulation and yard-stick regulation through benchmarking; and

iii) to explore the readiness and requirements of operators, investors and lenders to enter the Indian water supply and sanitation sector on a significant scale.

The seminar was attended by delegates from Central/State Governments, Union Territories, Public Sector Undertakings, experts from international organisations and private operators. The agenda and conclusions arrived at in the seminar are enclosed at Annexure-I. It would be observed there from that private sector participation would require careful preparation by each city and State before it can be adopted. Tariff increase has to be done in a gradual manner and should be so structured that lifeline supply would be available at minimum cost.

(f): Plan-wise investment made by the Government in the urban water supply and sanitation sector is enclosed at Annexure-II.

(g)&(h): The World Bank has not made any commitment so far, but would assist State Governments and cities which are willing to undertake reforms for improving drinking water and sanitation services.

ANNEXURE-I

SEMINAR ON PRIVATE SECTOR PARTICIPATION IN WATER SUPPLY AND SANITATION.

NEW DELHI, FEBRUARY 7.8.2000

AGENDA

# Options and Experience of Private Sector Participation

# Management Contracts - The examples of Cartagena, Colombia, Gaza and Trinidad and Tobago

# Lease Contracts and Concessions - The Examples of Dakar, (Senegal), Conakry, (Guinea) and Cote d`Ivoire

# The Concession of Manila` Experience. Political Setting and Labour Issues.

# Suitability of Private Operator Contracts in India

# The Challange of Water Supply and Sanitation in India

# Experience of Privatisation in the Water Supply Sector in Goa and Karnataka

# Views of Water Boards of Hyderabad, Bangalore, Chennai,Delhi, and selected Municipal Corporations of Mumbai,Calcutta, Rajkot, Surat, Ahmedabad, Pune, Nagpur, Vijaywada, etc.

# Bench-marking and Yard-stick Regulation

# Regulatory System in Chile, its Tariff Regulations and Subsidies for the Poor

# Practical Considerations for Tariff Policies - Examples from India and Latin America

# The Financing and Risk Mitigation offered by the World Bank group

# The Financing Possibility of Private Sector Participation (PSP)

# The Perspective of Private Operators and Investors.

SEMINAR CONCLUSIONS

The conclusions reached at the seminar are mentioned below:

(i) Successful private sector participation requires five ingredients:

+ Strong and sustained political support from the highest authorities;

+ Financial feasibility of the operations in order to generate the surplus necessary to pay for the operations costs for maintenance that has been postponed for decades, and for the large investments that are needed;

+ Competitive and transparent contracting of private operators;

+ Incentives for improvement where private operators are required to accept risk but also reap reward in order for operations to improve; and

+ Regulation by results where independent regulators monitor service quality and tariff levels of both public and private operators.

(ii) There are many private sector participation options and that each city and each State will have to select the one that is best suited. These could include in certain cases two stages that would start with service, management contracts and then continue with leases and concessions where more risk would be shifted to the private sector.

(iii) First priority should be to improve operations that are losing money. Losses as high as 50% need to be controlled.

(iv) Special attention would need to be paid to increase tariff in a gradual manner from the present level that are too low to pay for adequate operations for maintenance and pay for share on new investment. Tariffs need to be so structured that lifeline supply would be available at minimum cost and water for consumption could be paid at level sufficient to recover the full cost of service. Government support and financing from multilateral lenders might be necessary in the early years of private sector participation to pay for investment to reduce losses that are often 50% or more and to pay for postponed maintenance. All Government consumption would need to be regularly paid to limit the necessary increase of tariffs on domestic consumption. Gross subsidies would need to be limited

to encourage large industrial consumers to remain customers rather than building their own supplies.

(v) Private sector participation requires careful preparation. This would need financing to contract the expert studies. Such financing would be available from both HUDCO and international agencies.

(vi) Financing possibilities of private sector participation would depend on the success in improving the efficiency of operations in order to generate operational surplus that could service debt.

(vii) In preparation of regulatory assistance at the State level a bench marking system should be created where water utilities provide a data on service coverage, quality, efficiency of service and reliability of sustainability of service. Through such a system, bench marks could be established on best practices which could serve as a guide for structural contracts with private and public operators.

(viii) Within the country, best practices should be identified and they should be put on website and exchange of ideas between utilities within the country should be acceleratd.

(ix) The reforms should be designed using innovative approaches so as to provide access to good quality at affordable prices to urban poor.

(x) Necessary legal amendment in various Acts may be made for successful private sector participation.

(xi) Universal metering (in stages) should be the norm in order to enable systems to become financially viable and charged tariffs that encourage conservation of water.

(xii) There is need to initiate work to produce actual results. To this end, the seminar consensus is that regional workshops should now be organised in cities or States to encourage private participation for better efficiency and service quality. Such regional workshops should be focused to create awareness about private sector participation and to produce the terms of reference and the vetting of documents to enable the studies to be contracted with experiences consulting firms. The intent is that model bidding documents and contracts would be perpared that could then be used in other cities that have mobilized strong and sustained support in favour of private sector participation.

(xiii) A core group in the Government of India with representatives from States, cities, investors, operators bilateral/multilateral agencies be constituted to accelerate the reform in water supply and sanitation sector including drainage.

ANNEXURE-II

PLAN WISE INVESTMENT - WATER SUPPLY AND SANITATION SECTOR

S.NO. PLAN PERIOD TOTAL PUBLIC PLAN OUTLAY FOR URBAN WATER SECTOR PLAN SUPPLY AND SANITATION OUTLAY

| | AMOUNT RS.IN BILLION | AMOUNT RS. IN BILLION | % OF PUBLIC SECTOR OUTLAY |
|---|---|---|---|
| 1. I Plan (1951-56) | 33.60 | 0.43 | 1.28 |
| 2. II Plan (1956-61) | 67.50 | 0.44 | 0.65 |
| 3. III Plan (1961-66) | 85.73 | 0.89 | 1.04 |
| 4. 3 Annual Plans (1966-69) | 61.64 | N.A. | N.A. |
| 5. IV Plan (1969-74) | 159.02 | 2.82 | 1.77 |
| 6. V Plan (1974-79) | 393.03 | 5.49 | 1.40 |
| 7. Annual Plan (1979-80) | 125.49 | 1.97 | 1.58 |
| 8. VI Plan (1980-85) | 975.00 | 12.66 | 1.81 |
| 9. VII Plan (1985-90) | 1800.00 | 29.89 | 1.65 |
| 10. 2 Annual Plans (1990-92) | 1370.33 | 12.21 | 1.26 |
| 11. VIII Plan (1992-97) | 4341.00 | 59.82 | 1.38 |
| 12. IX Plan (1997-2002) | 8592.00 | 142.00 | 1.65 |